



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

LARGE AND MID-SIZE  
BUSINESS DIVISION

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MEMORANDUM FOR INDUSTRY DIRECTORS, LMSB  
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DIRECTOR, PREFILING AND TECHNICAL GUIDANCE, LMSB  
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SUBJECT: Field Directive on Asset Class and Depreciation for  
Casino Construction Costs

## INTRODUCTION

This memorandum is intended to provide direction to effectively utilize resources in the classification and examination of a taxpayer who is recovering construction costs through depreciation of tangible property used in connection with a land-based hotel/casino complex. Special rules may apply to floating casinos.

For depreciation purposes, a casino's exterior facades are I.R.C. § 1250 property and wall coverings, millwork, lighting fixtures, kitchen equipment hookups and emergency power generators are I.R.C. § 1245 property. However, if it can be determined that the emergency power generators' output is attributable to building operations, a functional allocation is appropriate for these assets. Hotel/casino complex site utilities are depreciable as I.R.C. § 1250 property. A casino's outdoor pylon sign is a land improvement, and part of the sign may qualify as I.R.C. § 1245 property.

It is also important to determine the activity in which an asset is primarily used to determine whether it is includible in Class Life 57, Distributive Trades and Services, or Class Life 79, Recreation.

## RECOMMENDATIONS

The matrix shown below contains recommendations for the categorization and lives of various land-based hotel/casino assets. If the taxpayer's tax return position for these assets is consistent with these recommendations, no adjustments should be made to categorizations and lives. If the taxpayer reports assets differently, then adjustments should be considered.

<b>ASSET</b>	<b>PROPERTY TYPE</b>	<b>RECOVERY PERIOD</b>
<u>Decorative Facades</u> (Decorative exterior wall covering of the hotel/casino complex)	§ 1250	39 years (40 years for purposes of § 168 (g))
<u>Ceilings</u> (Dropped or lowered ceilings with decorative finishes)	§ 1250	39 years (40 years for purposes of § 168 (g))
<u>Wall Coverings</u> (Strippable wall paper and vinyl)	§ 1245	5-7 years (10 years for purposes of § 168 (g))
<u>Millwork</u> (Includes decorative molding, trim, paneling and finish carpentry. Does not include door and window trim and other items that are integral parts of finished building components.)	§ 1245	5-7 years (10 years for purposes of § 168 (g))
<u>Lighting</u> (Chandeliers, wall sconces, down lighting, neon lighting, column lights, theater lighting plus cost of the wiring and electrical connections associated with these fixtures. Does not include lighting relating to operation or maintenance of building.)	§ 1245	5-7 years (10 years for purposes of § 168 (g))
<u>Kitchen equipment hookups</u> (Electrical outlets providing localized power sources for kitchen equipment. Does not include outlets relating to operation or maintenance of building.)	§ 1245	5-7 years (10 years for purposes of § 168 (g))
<u>Guest room electrical outlets</u> (Outlets providing general access to electrical power)	§ 1250	39 years (40 years for purposes of § 168 (g))
<u>Generators</u> (Emergency power generators for emergency/safety systems and casino operations. If some of the generators' output is for building then allocation is appropriate)	§ 1245	5-7 years (10 years for purposes of § 168 (g))
<u>Door locks</u> (Hotel guest room computerized door locks)	§ 1250	39 years (40 years for purposes of § 168 (g))
<u>Site utilities</u> (Systems that are used to distribute city-furnished utility services from the property line to the casino complex)	§ 1250	39 years (40 years for purposes of § 168 (g))
<u>Outdoor pylon sign</u> (Consists of a superstructure and television-like message screen)	§ 1250 Land Improvement.	15 years

## EFFECT ON OTHER GUIDANCE

This directive should be applied in the context of other applicable depreciation principles. For example, normal examination procedures should be followed to

determine whether all appropriate costs, including IRC § 263A expenses, have been associated with a particular asset. Examiners are encouraged to exercise their professional judgement when developing and resolving factual issues.

This memorandum is not an official pronouncement of the law or the Service's position and cannot be used, cited, or relied upon as such.

## CONTACTS

If you have any questions, please contact Eric Lacher, Gaming Industry Technical Advisor, at (702) 455-1123 ([Eric.A.Lacher2@irs.gov](mailto:Eric.A.Lacher2@irs.gov)).

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